

California Department of Insurance

~~2004~~ 8*Eight-Hour Annuity Training Outline*

TOPICS TO BE INCLUDED IN 8-HOUR ANNUITY TRAINING COURSE

OVERVIEW

The following outline is a listing of the topics that must be addressed as part of all 8-hour annuity courses designed to meet the requirements of SB 620 (Scott, Chapter 547, Statutes of 2003), Annuities: life insurance: required disclosures and prohibited sales practices and how annuities affect Medi-Cal as stated in SB 483.

CURRICULUM OBJECTIVES

Each topic must be developed in its entirety and should explain (not merely recite) chaptered legislation and pertinent regulations. Each topic should ***include an explanation of*** why they are significant to the agent and client. The subjects do not need to be presented in this outline order. However, they do need to be developed in a clear and meaningful manner so that the student derives a clear understanding of the pertinent issues and implications. All statistical information and points of fact must be referenced to the original source data.

Examples are encouraged to illustrate points and concepts.

For contact courses, the topics need to be articulated in writing to the extent that the student can relate the words of the instructor to the course material in a meaningful way. For correspondence courses, each topic must be developed in full so that the reader can get an understanding of the material as if he or she was in a contact course.

Discussions of topics must be handled in a neutral manner. These sources should ***NOT***:

- Use the opportunity to persuade;
- Indoctrinate or enlighten agents on a particular philosophy or a political or public policy position;
- Opinions about state or federal legislation or forecasting the success or failure of legislation should not be included in these courses;
- No marketing information is allowed in annuity courses;
- Copyright material cannot be inserted or attached to the course material without proper references; and,
- Attachments to the course material cannot contain the information noted in the above bulleted items.

These courses should not be used as an opportunity to persuade, indoctrinate or enlighten agents on a particular philosophy, a political or a public policy position. Opinions about state or federal legislation or forecasting the success or failure of legislation should not be included in these courses. Moreover, absolutely no marketing information is allowed in annuity courses.

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Course providers are required to demonstrate the following:

- Provide a detailed understanding of all the topic areas with how the issues ~~effect~~ affect seniors;
- Show continuity of explanations in the course textbook, examples, references, and citations;
- Provide easy to read text. Rather than seemingly unrelated pieces of data, the text should have a narrative explanation of why/how parts fit together;
- Reach or state conclusions (i.e., why is this topic important and what does it mean for the policyholder);
- Substantiate information with material presented; and,
- Courses should be focused on needs of consumers and the problems and solutions associated with annuities, especially as they affect seniors.
- How annuities affect persons that are 60 years and older including Medi-Cal eligibility.

Disclaimer - The California Department of Insurance is released of responsibility for approved course materials that may have a copyright infringement. In addition, no course approved for either prelicensing or continuing education hours or any designation resulting from completion of such courses should be construed to be endorsed by the Commissioner.

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<u>Topic</u>	<u>Page</u>		Contact Course Time (Minutes)¹	Non- Contact Course (Pages)²
Overview and Curriculum Objectives	1			
Table of Contents	3			
Annuity Training Outline	4			
I. Historical development of annuity contracts – 5%	4		20	3.5
II. Discuss the primary uses of annuities – 10%	4		40	7
III. Introduce the types of annuities recognizing the various classifications of annuities – 5%	4		20	3.5
IV. Identify the parties to an annuity – 8%	4		32	6
V. How fixed, variable, and index annuity contract provision affect consumers – 20%	5		80	14
VI. Qualified plans and annuities – 5%	8		20	3.5
VII. Discuss the application of income taxation of qualified and non-qualified annuities – 10%	8		40	7
VIII. Advantages and disadvantages – 5%	9		20	3.5
IX. Introduce sales practices for California insurance agents – 20%	9		80	14
X. The Senior Market – 10%	12		40	7
XI. Role of the California Life and Health Insurance Guarantee Association in relationship to annuities – 2%	12		8	1
Attachment I, Annuity Legislative History - Provider Reference	13			
Attachment II, Life Agent Disclosure Requirements (AB 2107, Scott, Chapter 547, Statutes of 2001)	13			

¹ Based on a 50-minute credit hour standard.

² Based on a standard text of approximately 1-credit hour per 10 pages of text with 44 lines per page and 12 or more words per line depending on the degree of difficulty of the material.

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Annuity Training Outline

- I. Historical development of annuity contracts** **5%**
- A. How they have evolved to the products and practices we see today as they relate to consumers
 - ~~B. Products and practices (Attachment I—Legislation)~~
 - B. Market overview
- II. The primary uses of annuities** **10%**
- A. Annuities defined
 - 1. An annuity is defined as the liquidation of a principal sum to be distributed on a periodic payment basis to commence at a specific time and to continue throughout a specified period of time or for the duration of a designated life or lives.
 - B. How does the utilization of annuities help fulfill consumer's retirement goals as compared to other financial planning vehicles?
- III. Introduce the types of annuities recognizing the various classifications of annuities.** **5%**
- ~~An annuity is defined as the liquidation of a principal sum to be distributed on a periodic payment basis to commence at a specific time and to continue throughout a specified period of time or for the duration of a designated life or lives.~~
- A. Annuity type according to when benefits are paid out
 - 1. Define immediate annuity
 - 2. Define deferred annuity
 - 3. Distinguish between the characteristics of the two types
 - B. Annuity type according to how and when premiums are paid
 - 1. Define single premium annuities
 - 2. Define flexible premium annuities
 - 3. Distinguish between the characteristics of the two types
 - C. Annuity type according to investment options offered
 - 1. Define variable annuities
 - 2. Define fixed annuities
 - 3. Define indexed annuities
 - 4. Distinguish between the characteristics of fixed, indexed, and variable annuities

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IV. Identify the parties to an annuity

8%

- A. Describe the rights and obligations of the annuity owner
 - 1. Identify the entities eligible for annuity ownership
 - 2. Distinguish the rights of the annuity owner in owner-driven contracts
 - 3. Distinguish the rights of the annuity owner in annuitant-driven contracts
- B. Describe the rights and obligations of the annuitant
 - 1. Identify the entities eligible for the role of annuitant
 - 2. Distinguish the role of annuitant in owner-driven contracts
 - 3. Distinguish the role of annuitant in annuitant-driven contracts
- C. Describe the rights and obligations of the insurance company (Section 10127.10, 10127.11, 10127.12, 10127.13, and 10509.6 of the CIC)
 - 1. Distinguish obligations with insurance company issued non-qualified annuities
 - 2. Distinguish obligations with insurance company issued annuities for individual retirement accounts, tax sheltered annuities, and qualified retirement plans
 - 3. Introduce insurance rating services ~~including, but not limited, to the following~~ and how they indicate an insurer's financial strength of a company
 - a. ~~A.M. Best~~
 - b. ~~Standard and Poor's~~
 - c. ~~Moody's~~
 - 4. Advertising responsibilities (Section 787 of the CIC)
 - 5. Policy cancellation and refunds (Section 786, 10127.10, and 10509.6 of the CIC)
- ~~D. Describe the rights and obligations of the insurance producer at contract inception~~
 - ~~1. Disclosure (CIC 789.8)~~
 - ~~2. Illustrations (CIC 1725.5, 10127.11)~~
 - ~~3. Replacement (CIC 10509.4, 10509.8)~~
 - ~~4. Free Look Period (CIC 786, 10127.10)~~
 - ~~5. Importance of reviewing sample contracts~~
- D. Describe the rights of and options available to beneficiaries
 - 1. Identify how ~~entities eligible for the role of beneficiary~~ beneficiaries may be affected by SB 483
 - 2. Discuss the settlement options available to beneficiaries
 - a. As a surviving spouse
 - b. As an individual or an entity other than a surviving spouse

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V. How fixed, variable, and index annuity contract provisions affect consumers **20%**

A. Identify and discuss contract provisions that are typically common to annuities

1. ~~Interest rates and compensation~~

a. ~~First year bonus “teaser” rates~~

1. Issues ages (Section 10112 of the CIC)

2. Maximum ages for benefits to begin

4. ~~Crisis waivers~~

a. ~~Nursing home~~

b. ~~Terminal illness~~

c. ~~Unemployment~~

d. ~~Disability~~

e. ~~Charges and fees~~

3. Premium payments (Section 10540 of the CIC)

6. ~~Settlement options upon death of owner or annuitant~~

a. ~~Tax-qualified Plan~~

i. ~~stretch~~

b. ~~Tax non-qualified Plan~~

i. ~~stretch~~

4. Surrender charges (Section 10127.10, 10127.12, and 10127.13 of the CIC)

a. Market value adjustment

b. Explain the impact of surrender charges on principal

c. Surrender charge waivers

i. Nursing homes and similar facilities

ii. Terminal illness

iii. Unemployment

iv. Disability

v. Charges and fees

d. Include the required notice & printing requirements

6. Policy administration charges and fees

7. Withdrawal privilege options

10 ~~Annuity options~~

B. Income distributions

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1. Introduce the application of a split annuity in retirement planning
 2. Introduce the various settlement options
 - a. Life
 - b. Joint survivor
 - c. Period certain
 - d. Cash refunds
 3. Discuss the advantages and disadvantages of annuitization options
 4. ~~Discuss tax ramifications of annuitization options~~
 - a. ~~Non-qualified annuitization options~~
 - b. ~~Qualified annuitization options~~
- C. Identify and discuss contract provisions that are typically common to fixed annuities
1. Death benefits
 - a. Lump sum vs. 5-year pay out
 - b. Provisions
 2. Charges and fees
 3. Interest rate strategies
 - a. Annual
 - b. Multi-year
 4. Interest rate crediting methods
 - a. Portfolio rates
 - b. New money rates
 - c. First year bonus “teaser” rates
 - d. Explain annualized interest rate calculations on bonuses that apply to fixed accounts
 5. Minimum Guaranteed Interest Rates (Section 10168.25 of the CIC)
 - a. Low interest rate environment impact on interest rates

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D. Variable annuities

1. How they are sold and license requirements (e.g. prospectus)
 - a. General vs. separate accounts
 - b. Variable options
 - c. Financial Industry Regulatory Authority
 - d. Equity-based
 - e. Risk-based
- ~~2. Fixed options (Section 10127.10 of the CIC)~~
2. Charges and fees
3. Dollar cost averaging
 - a. ~~Explain annualized interest rate calculations on bonuses that apply to fixed accounts~~
4. Death benefit guarantees (Section 10168.4 of the CIC)
5. Living benefit guarantees

E. Identify and discuss contract provisions common to indexed annuities

1. Primary interest crediting strategies
 - a. Monthly averaging
 - b. Point to point
 - i. Annual point to point
 - ii. Long term point to point
 - c. High water mark
 - d. Annual resets
 - e. Combination methods
2. Spreads
3. Cap rates
4. Participation rates
5. Minimum guaranteed interest rate
6. Impact of premature surrender charges
7. Charges and fees

F. Identify and discuss available riders

1. Life insurance riders

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2. Long term care benefits riders
 - a. Terms of riders
 - b. Differentiate between crisis waivers and long term care riders
3. Loan provisions

VI. Qualified plans and annuities

5%

- A. ~~The annuity market and buyer demographics~~ Qualified vs. non-qualified
 1. Defined benefit
 2. Defined contribution
 3. IRA
 4. Roth IRA
 5. TSA (Tax Sheltered Annuity) (403b)
 6. 401-K
 7. SEP (Simplified Employee Pension Plan)
- B. Annuities and retirement planning
- C. Differences between qualified and non-qualified

VII. Discuss the application of income taxation of qualified and non-qualified annuities in the following instances:

10%

- A. Payment of premiums
- B. Cash value accrual (Section 10168.2 of the CIC)
- C. Partial withdrawals
- D. Loans and assignments
- E. IRS Section 1035 exchanges
- F. Gift of an annuity
- G. Sale of an annuity by the owner
- H. Death of an annuity owner (Section 10168.2 of the CIC)
 1. Ordinary income tax adjustment
- I. Death of an annuitant
 1. Ordinary income tax adjustment
- J. Annuity benefits distributions
 1. Discuss the exclusion ratio and its application in distribution calculations
 2. Tax-deferred compounding
 - a. Discuss the proper way to compute taxable vs. tax-deferred vs. tax-free returns

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- b. Discuss the long term effect of tax-deferred compounding vs. other available investment choices

K. Tax effect on beneficiary estate issues

L. Disclaimer -Attachment II (Section 789 of the CIC)

- 1. If a life agent offers to sell to a client any life insurance or annuity product, the life agent shall advise the client or the client's agent in writing that the sale or liquidation of this product may have tax consequences.
 - 2. The life agent shall disclose that the client may wish to consult independent legal counsel or financial advice before buying, selling or liquidating any assets being solicited or offered for sale.
 - 3. This course is not intended to provide advice with issues surrounding income and estate taxation of annuities. If expert tax assistance is required, life agents shall advise client to consult with other professionals.

VIII. A. Advantages and disadvantages

5%

- 1. Advantages of annuities
 - a. For persons under 60 years old
 - b. For persons 60 years and older
 - c. Surrender charges
 - 2. Disadvantages of annuities
 - a. For persons under 60 years old
 - b. For persons 60 years and older
 - c. Surrender charges
 - 3. Illustrate/show the advantages and disadvantages of the following types of investment alternatives to annuities that include CD's, money markets, savings, mutual funds, stocks, bonds, commodities, options, limited partnerships, promissory notes, real estate investment trusts, and viatical settlements

IX. Introduce sales practices for California insurance agents

20%

A. Describe the rights and obligations of the insurance producer at contract inception

- 1. Disclosure (Section 789.8 of the CIC)
 - 2. Illustrations (Section 1725.5, 10127.11 of the CIC)
 - 3. Replacement (Section 10509.4, 10509.8 of the CIC)
 - 4. Free Look Period (Section 786, 10127.10 of the CIC)
 - 5. Importance of reviewing sample contracts

B. Appropriate advertising (Section 1725.5 of the CIC)

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1. General advertising for persons 65 and older (Section 787 and 1725.5 of the CIC)
(Section 1725.5 of the CIC)
 - a. Definition of advertisement: envelopes, stationary, business cards (~~Section 787[b]~~
~~of the CIC~~)
 - i. Required information to be displayed
 - ii. Use of the word “insurance”
 - iii. License number
 - b. Seminars, classes, informational meetings
 - i. Required information to be displayed
 - ii. Use of the word “insurance”
 - iii. License number
 - c. Direct mailers
 - d. Advertisements, coverages, and advertisers may not in anyway imply a product is endorsed by or related to any government agencies (Section 787 of the CIC) may not look like government agency, non-profit or senior organization
 - e. ~~Coverage not provided or endorsed by government agency, non-profit or senior organization~~
 - f. ~~Advertiser is not connected with government agency, non-profit or senior organization~~
 - g. ~~Coverage or advertiser is not related to government agency~~
 - e. Any person or entity that is exempt from licensure is a direct response provider (Section 1725.5[h], 1749.8[d] of the CIC)
 - i. Fines and penalty
 2. Specific advertising to seniors (Section 787 of the CIC)
- C. Prohibited sales practices
1. Selling annuities for Medi-Cal eligibility (Section 789.9 of the CIC)
 - a. Selling annuity to persons 65 years and older for purpose of qualifying for Medi-Cal is prohibited if:
 - i. If assets are equal to or less than community spouse resource allowance
 - ii. Senior otherwise qualifies
 - iii. After purchase senior or spouse does not qualify for Medi-Cal
 2. In-Home Solicitations: 24-hour Notice requirement for persons 65 years and older (Section 789.10 of the CIC)
 - a. Criteria
 - i. For persons 65 years and older
 - b. Content of written notice

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- c. Can not misrepresent true content of meeting
- 3. Sharing commissions with attorney (Section 1724 of the CIC)
- 4. Unnecessary replacement (Section 10509.8 of the CIC)
 - a. Define "unnecessary replacement"
 - i. Pay a surrender charge
 - ii. Define substantial financial benefit
 - b. Examples of unnecessary replacement
- 5. Bait and switch
 - a. Pre-text interview-definition and examples
 - i. ~~Classic Trust Mill: Alliance For Mature Americans~~
 - ii. ~~Living Trust Mills and Pretext Interviews Notice—Commissioner Low (Attachment II)~~
 - b. Long term care sales
 - c. Unauthorized practice of law-drafting, delivering, interpreting legal documents (Section 6125 of the Business and Professions Code)
- 6. Cause for suspension (Section 1668.1 of the CIC)
 - a. Loans
 - b. Agent beneficiaries, trustee, and power of attorney
 - e. ~~Agent as trustee~~
 - d. ~~Agent as power of attorney~~
 - c. Benefits payable to family or friends of agent
 - i. Exceptions
- 7. Penalties (Section 782, 786, 789.3, 1738.5, 10509.9 of the CIC)
- 8. SB 483, Kuehl. Medi-Cal: home and facility care
 - a. Home equity limits (Section 14006.15[c] of the Welfare and Institutions Code)
 - b. Establishment of hardship exception (Section 14015.1, 10415.2 of the Welfare and Institutions Code)
 - c. Look-back period (Section 14015[c] of the Welfare and Institutions Code)
 - d. Establishment of requirements related to annuities, designated beneficiaries, and California's role as a remainder beneficiary of annuities (Section 14006.15[a][2], 14006.41[b], 14009.6 of the Welfare and Institutions Code)
- D. Discuss the importance of determining client suitability for annuity sales (~~NAIC Senior Protection In Annuity Transactions Model Act & Regulation~~)

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1. Identify the need for information prior to making recommendations
 - a. The consumer's financial status
 - i. Income
 - ii. Liquid assets
 - iii. Comprehensive LTC Insurance in place?
 - b. The consumer's tax status
 - c. The consumer's investment objectives
 - d. Other information to be used or considered relevant
2. Discuss the need for full contract disclosure (CIC 10168.7)
3. Discuss the need for complete record keeping

E. Identify required disclosures (AB 2107, Scott, Chapter 442, Statutes of 2001- Attachment III)

F. Policy cancellation and refunds (CIC 10127.10, 10509.6)

1. Free look for persons 60 years and older (CIC 786)

X. The Senior Market

10%

- A. Risk and the senior client
- B. Pre-retirement vs. post-retirement planning
- C. Financial concerns
 1. Social security
 2. Retirement plan distributions
 3. Investing retirement assets
 4. Surrender charges
- D. Insurance concerns
 1. Health
 2. Long term care
 3. Estate planning
- E. Selling to the senior market
 1. Product complexity
 2. The issue of buyer competence
 - a. The recognition of indicators that a prospective insured may lack the short-term memory or judgment to knowingly purchase an insurance product

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b. When are there rescissions of a contract based on mental incompetence (California Civil Code §38 and 39)

3. Unique ethics and compliance issues

4. Suitability for the senior market

X Reserving issues with annuity contracts

A. How they differ with other life insurance contracts

B. Limits that companies may place on annuity sales due to reserving issues

C. How does this impact the consumer's decision in purchasing an annuity contract

D. How does the low interest rate environment impact reserving and annuity payouts and rates of return

XI Consumer attitudes towards retirement

A. How does the utilization of annuities help fulfill consumer's retirement goals as compared to other financial planning vehicles

XI. Role of the California Life and Health Insurance Guarantee Association in relationship to annuities (CIC 1067) 2%

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Attachments

I	Attachment I, Annuity Legislative History - Provider Reference
II	Living Trust Mills and Pretext Interviews Notice—Commissioner Low
II.	Attachment II, Life Agent Disclosure Requirements (CIC 789.8)